

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-07  
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15  
USIA-06 IO-13 OMB-01 /073 W  
-----063371 251036Z /20

R 251014Z JUL 77  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC 6412  
INFO AMCONSUL EDINBURGH  
AMCONSUL BELFAST

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 12154

E.O. 11652: XGDS-1  
TAGS: PGOV, PINT, PDEV, UK  
SUBJECT: DEVOLUTION: NEXT STEPS AND OUTLOOK

REF: A) LONDON 11789; B) LONDON 11909

SUMMARY - THE GOVERNMENT IS PUTTING THE FINISHING TOUCHES ON ITS REVISED DEVOLUTION LEGISLATION FOR SCOTLAND AND WALES, FOLLOWING INTENSIVE CONSULTATIONS WITH THE LIBERALS. IT WILL PUBLISH A WHITE PAPER NEXT WEEK DESCRIBING SEVERAL POSSIBLE SCHEMES TO GIVE THE REGIONAL ASSEMBLIES REVENUE RAISING POWERS, BUT WHICH WILL RECOMMEND AGAINST THEIR ADOPTION. THE NEW BILLS -- SCOTLAND AND WALES WILL BE TREATED SEPARATELY -- WILL BE INTRODUCED EARLY IN THE NEXT SESSION. ONCE THE BILLS ARE INTRODUCED, THE GOVERNMENT BELIEVES THE SCOTTISH NATIONALISTS WILL BE UNWILLING TO SEE THE CALLAGHAN GOVERNMENT FALL. WITH THE LIBERALS FIRMLY ON BOARD AND OPPOSITION TO DEVOLUTION WITHIN THE PARLIAMENTARY LABOR PARTY (PLP) DIMINISHED, THE GOVERNMENT IS CAUTIOUSLY OPTIMISTIC THAT PARLIAMENT WILL VOTE TO GIVE SCOTLAND A MEASURE OF HOME RULE. END SUMMARY.

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1. PRIVY COUNCIL MINISTER JOHN SMITH JULY 21 DESCRIBED THE CURRENT STATE OF PLAY REGARDING DEVOLUTION TO EMB-OFF IN SOME DETAIL. THE CABINET HAS DECIDED UPON SEPARATE BILLS FOR ELECTED ASSEMBLIES IN SCOTLAND AND WALES, AND NEGOTIATIONS WITH THE LIBERAL PARTY OVER THE CONTENT OF THE BILLS HAVE GONE SMOOTHLY, IN NO SMALL PART DUE TO SMITH'S LONG-STANDING FRIENDSHIP WITH LIBERAL LEADER

STEEL AND LIBERAL SPOKESMAN ON SCOTTISH AFFAIRS, RUSSELL  
JOHNSTON.

2. THE DRAFTING OF THE BILLS IS NEARLY COMPLETED. ASIDE  
FROM THE DECISION TO HAVE SEPARATE LEGISLATION FOR THE  
TWO REGIONS, THE MOST IMPORTANT CHANGE REGARDS ARRANGE-  
MENTS FOR DETERMINING THE SIZE OF THE BLOCK FINANCIAL  
GRANT THAT WILL BE GIVEN THE ASSEMBLIES FOR PROGRAM AL-  
LOCATION. AFTER CONSIDERABLE STUDY, THE LIBERALS HAVE  
CONCEDED THAT THERE IS NO REASONABLE WAY TO GIVE THE  
DEVOLVED ASSEMBLIES SIGNIFICANT TAX POWERS. THE  
GOVERNMENT, HOWEVER, WILL PUBLISH A WHITE PAPER DESCRIB-  
ING VARIOUS REVENUE RAISING OPTIONS, AND THE PROS AND  
CONS OF EACH, NEXT WEEK. THE WHITE PAPER WILL RECOMMEND  
AGAINST THEIR ADOPTION, BUT WILL LEAVE THE DOOR OPEN TO  
AMENDMENT FROM THE FLOOR OF COMMONS.

3. SMITH SAID THE TWO BILLS WILL BE INTRODUCED EARLY IN  
THE NEXT PARLIAMENTARY SESSION, WHICH WILL OPEN NOVEMBER  
3. FOR TACTICAL REASONS HE HOPES THEY WILL BE THE FIRST  
MAJOR BUSINESS PUT BEFORE PARLIAMENT, BUT NO DECISION ON  
THIS HAS BEEN TAKEN. THE GOVERNMENT BELIEVES THAT THE  
INTRODUCTION OF THE BILLS WILL NEUTRALIZE THE 11-MEMBER  
SCOTTISH NATIONAL PARTY (SNP) BLOC ON CONFIDENCE ISSUES,  
SINCE THE SNP WOULD BE SEVERELY DAMAGED POLITICALLY IF  
ITS MPS VOTED TO BRING DOWN A LABOR GOVERNMENT OFFERING  
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DEVOLUTION WHILE THE TORIES ARE SO HOSTILE TO HOME RULE  
FOR SCOTLAND (REF A). WITH THE ULSTER UNIONISTS ALREADY

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L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15  
USIA-06 OMB-01 IO-13 /073 W  
-----063388 251037Z /20

R 251014Z JUL 77  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC 6413  
INFO AMCONSUL EDINBURGH  
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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 12154

MESMERIZED BY THE PROSPECT OF ADDITIONAL REPRESENTATION AT WESTMINSTER (REF B) AND THE LIKELIHOOD OF RENEWAL OF THE LIBERAL PACT HI" H, CONSERVATIVE HOPES OF UNSEATING CALLAGHAN WILL OE GREATLY DIMINISHED. SMITH, HOWEVER, ACKNOWLEDGED THAT THE GOVERNMENT MAY WELL HAVE ITS HANDS FULL JUST TRYING TO HOLD THE PLP TOGETHER IF ITS WAGES POLICY BEGINS TO UNRAVEL.

4. SMITH IS CAUTIOUSLY OPTIMISTIC THAT PARLIAMENT WILL PASS THE DEVOLUTION BILL FOR SCOTLAND THIS TIME AROUND. THE LIBERALS AND THE NATIONALISTS WILL SUPPORT CLOTURE, WHILE THE DECISION TO SPLIT THE ORIGINAL BILL MEANS THAT SEVERAL WELSH LABOR MPS WHO OPPOSED DEVOLUTION FOR THE PRINCIPALITY WILL NOW SUPPORT THE BILL FOR SCOTLAND. IN ADDITION, SMITH BELIEVES SEVERAL OF THE ANTI-DEVOLUTION LABOR MPS FROM NORTHERN ENGLAND CAN BE BROUGHT INTO LINE WITH SOME CONCESSIONS FROM THE GOVERNMENT ON REGIONAL DEVELOPMENT POLICY. ASKED ABOUT TORY SUPPORT THIS TIME, SMITH SAID HE WAS ONLY COUNTING ON TWO CONSERVATIVE VOTES -- TED HEATH AND ALICK BUCHANAN-SMITH. ALTHOUGH THERE MAY BE OTHER TORIES WILLING TO SUPPORT THE SCOTLAND  
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BILL, THEY CANNOT BE CONSIDERED FIRM. AS FOR THE WALES BILL, SMITH THINKS IT WILL PROBABLY PASS THE SECOND READING VOTE, BUT IS UNLIKELY TO GAIN A MAJORITY FOR CLOTURE. SCOTLAND, HE AFFIRMED, IS THE GOVERNMENT'S FUNDAMENTAL CONCERN.

5. COMMENT: WE HAVE FELT FOR SOME TIME THAT SEPARATE DEVOLUTION BILLS FOR THE TWO REGIONS WOULD SIGNIFICANTLY ENHANCE THE PROSPECTS FOR AN ELECTED ASSEMBLY IN SCOTLAND. IF THE LIBERALS, AS SMITH INDICATED, HAVE RETREATED FROM THEIR EARLIER INSISTENCE ON REVENUE RAISING AUTHORITY, ONE OF THE MOST DIFFICULT DEVOLUTION DILEMMAS FACING THE GOVERNMENT EVAPORATES. WE BELIEVE, ACCORDINGLY, THAT SMITH'S CAUTIOUS OPTIMISM IS FULLY JUSTIFIED. INDEED, REMEMBERING THAT HE THOUGHT THE EARLIER CLOTURE MOTION WOULD PASS BY A NARROW MARGIN, HE MAY NOW BE SOMEWHAT OVERLY CAUTIOUS. FROM OUR VANTAGE POINT THE

PIVOTAL QUESTION WOULD APPEAR TO BE WHETHER THE GOVERN-  
MENT CAN REMAIN IN POWER LONG ENOUGH -- SAY 12 TO 15  
MONTHS -- TO COMPLETE LEGISLATIVE ACTION.  
BREWSTER

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